



GLOBAL STRATEGY PAPER NO. 48

Indian equities: Digital transformation as private goes public

New economy private unicorns are finally coming to public markets in India

The number of 'unicorns' has surged in India in recent years, enabled by the rise of the internet ecosystem, availability of private capital and favorable regulatory environment. The amount of money raised through IPOs this year has reached US\$10bn, surpassing the issuance in the past 3 years. We expect the IPO pipeline to remain robust over the next 12-24 months, based on recent announcements from 'new economy' unicorns and our objective framework for estimating new listings.

Significant changes to capital market/indices lie ahead

We estimate nearly US\$400bn of market cap could be added from new IPOs over the next 2-3 years. India's market cap could increase from US\$3.5tn currently to over US\$5tn by 2024, making it the 5th largest market by capitalization. India's share of the global market cap and index weighting should also rise.

New India: Getting younger, growing faster, digital but expensive

Indian equity indices are among the 'oldest' in the region with the average listing age exceeding 20 years and dominated by old-economy sectors. As the large digital IPOs get included, the new economy sector exposure could rise from 5% to 12% (at 50% float) and 16% (full inclusion) over the next 2-3 years. The addition of new listings could increase the aggregate revenues of MSCI India index by 20%. However, new economy stocks trade at expensive valuations relative to existing public equities.

Opportunities for investors and financial intermediaries

While Indian equities have done well this year (+26% ytd), being the best performing market regionally prompting overheating concerns, we stay overweight on expectations of a strong cyclical recovery and supportive flows. Additionally, the strong thematic appeal and growth potential of the new economy sectors lend support to our medium-term constructive view. Investors can find attractive return opportunities, as long as they don't overpay for growth, as evidenced by significant outperformance of China new economy stocks over the past decade. Financial intermediaries may have substantial revenue opportunities from growth in issuance-related activities.

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Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

India's Evolving Equity Landscape



IPO ACTIVITY

67 unicorns (half of them from Fintech, E-commerce, SaaS)

US\$10bn raised through IPOs ytd (surpassing issuance in the past 3 years)

Strong IPO pipeline; **~150** private firms that could potentially list over the next 2-3 years, based on our framework

CAPITAL MARKET / INDEX SHIFTS

US\$400bn additional market cap could be added from new IPOs over the next 2-3 years

India's market cap to rise from US\$3.5tn to over **US\$5tn** by 2024, making it the...

...**5th** largest market by capitalization (from current 7th)

India's share of global market cap and index weighting to rise



DIGITAL TRANSFORMATION: RISE OF 'NEW ECONOMY' SECTORS

MSCI **India** average listing age: **>20 yrs.** vs. **China 9 yrs**

New economy share rises from 5% to **12%** over the next 2-3 years (50% float) and **16%** (full inclusion)

20% rise in aggregate index revenues

OPPORTUNITIES

Boost to capital flows

US\$12bn of passive buying from benchmarked funds

Attractive return opportunities: **17x** returns for new China vs. 3x for old China since 2005

Substantial revenue opportunities for financial intermediaries from issuance-related activities



Executive Summary

Several 'new economy' unicorns are heading for IPOs in India. Large public market issuance, with a digital emphasis could potentially transform Indian capital markets and equity indices over the next few years. We discuss ramifications of these changes and potential implications for investors.

- **Privately funded unicorns are rushing to the public markets in India.** The number of 'unicorns' has surged in recent years, enabled by the rise of the internet ecosystem, availability of private capital and favorable regulatory environment. The amount of money raised through IPOs so far this year has reached US\$10bn, and has surpassed the IPO issuance in the past three years. We expect the IPO pipeline to remain robust over the next 12-24 months, based on recent announcements from 'new economy' unicorns and our objective framework for estimating new listings.
- **Significant expansion in the size of the Indian capital market lies ahead.** We estimate nearly US\$400bn of market cap could be added from new IPOs over the next 2-3 years. India's market cap could increase from US\$3.5tn to over US\$5tn by 2024, making it the 5th largest market by capitalization (from 7th largest currently). India's share of the global market cap and index weighting should also rise.
- **Indian equity indices could see a larger representation of the new economy sectors.** India is among the 'oldest' in the region with the average listing age exceeding 20 years (vs. 9 years for China). As the large digital IPOs get included, we see the new economy exposure rise from the current 5% in MSCI India to 12% over the next 2-3 years, at 50% float and 16% in case of full market cap inclusion.
- **We envisage a younger, faster growing, digital but more expensive Indian equity index based on China's experience.** The China equity index is the 'youngest' regionally. 'New economy' sectors comprise 60% of MSCI China index (up from 20% a decade ago) and helped China deliver the best 10yr EPS CAGR regionally (11% for China vs. 6% for MXAPJ) and outstanding 'new China' price returns. The addition of new listings in India could increase the aggregate revenues of MSCI India by 20% on a pro forma basis, but private firms are trading at expensive valuations relative to public equities.
- **Positive liquidity and macro implications.** We think capital flows may likely remain strong, given the robust IPO pipeline. We estimate US\$12bn of passive buying from the potential inclusion of unicorns in MSCI India over the next 2-3 years. Strong investor demand and ensuing capital flows could keep equity valuations high n/t, support INR and further catalyze financialization of household savings.
- **Implications for investors and financial intermediaries:** Despite its strong performance ytd, we stay overweight on India on expectations of a strong cyclical recovery and supportive flows. Additionally, the secular growth potential of the new economy sectors lends support to our medium-term constructive view. Investors can find attractive return opportunities, as long as they don't overpay for growth. Financial intermediaries may have substantial revenue opportunities from growth in primary, secondary and related issuance activities.

Privately funded unicorns are rushing to the public markets in India

The private equity (PE) and venture capital (VC) space in India has been quite active in recent years. Over the past three years, Indian companies / startups have been raising US\$35-40bn annually via PE/VC deals, which has exceeded the funds raised by Indian corporates through public market issuance.

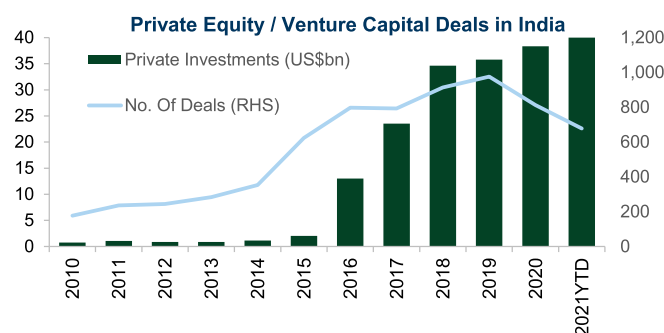
A large majority of this capital has been flowing into India’s internet/digital ecosystem. This year alone, about US\$43bn of funds has been raised to date via private equity deals, with about 70% of deals (by number) and 60% of deals (by value) concentrated in the IT and ITES (Info Tech Enabled Services) sector.

The number of unicorns has surged. The rise in private funding, coupled with the development of the digital ecosystem (enabled by a variety of factors that we discuss later) has helped startups to grow and rapidly gain scale. Consequently, the number of companies with valuation above US\$1bn, commonly referred to as ‘unicorns’, has risen rapidly. There are an estimated 67 unlisted startups that have achieved unicorn status in India with 27 of them hitting the US\$1bn valuation mark this year alone. The largest unicorns are mostly from new economy sectors with about half of them from the Fintech, E-commerce and Saas/Data Management sectors.

Many of the unicorns are rushing for IPOs. PE exits via public market sales have increased this year with many companies heading for IPOs. The amount of money raised through IPOs this year has reached US\$10bn, and has already surpassed the full-year IPO issuance in the past three years. We expect the IPO pipeline to remain robust based on the recent announcements made by various companies.

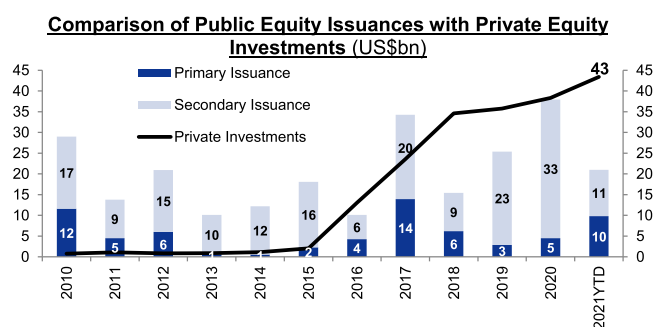
We see significant implications for the Indian equity landscape. Large public market issuances, with an increasing digital economy emphasis could potentially transform capital markets/indices over the medium term and have potential implications for investors, as we discuss in greater detail in this report.

Exhibit 1: Fund raising in India via private equity deals has risen in recent years...



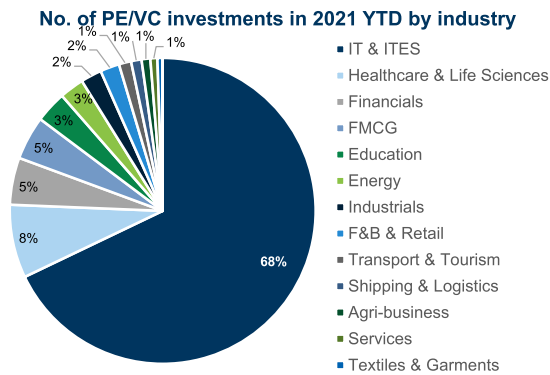
Source: Venture Intelligence, Goldman Sachs Global Investment Research

Exhibit 2: ... and has exceeded public market issuance



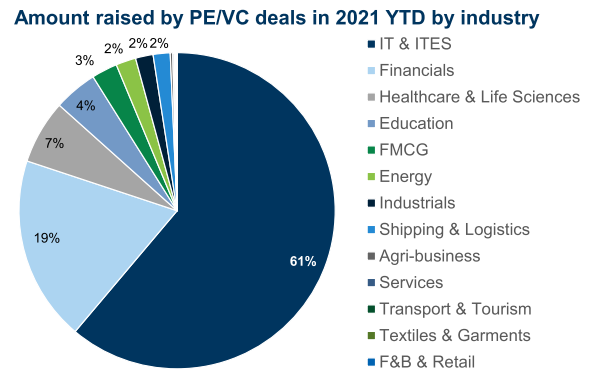
Source: Venture Intelligence, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 3: About 70% of PE deals have been concentrated in the IT & ITES sector



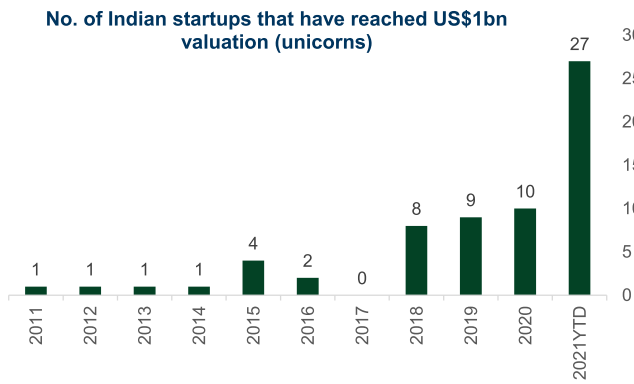
Source: Venture Intelligence, Goldman Sachs Global Investment Research

Exhibit 4: About 60% of PE deals by value (US\$26bn) have been concentrated in the IT & ITES sector



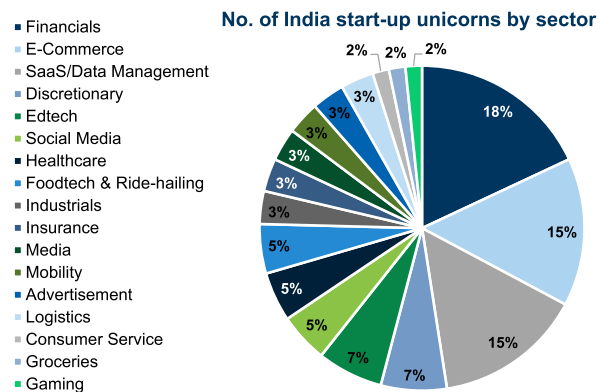
Source: Venture Intelligence, Goldman Sachs Global Investment Research

Exhibit 5: The number of unicorns (startups worth US\$1bn valuation or more) has surged this year



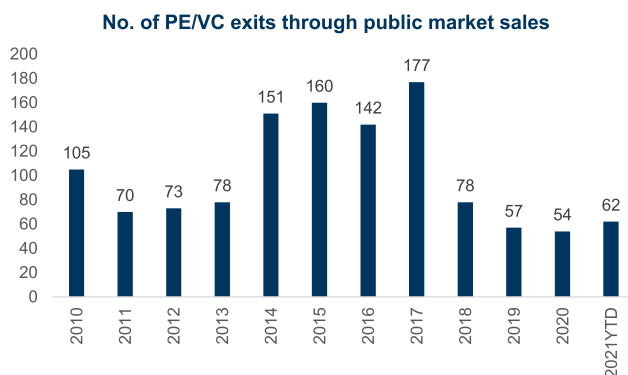
Source: Venture Intelligence

Exhibit 6: The largest unicorns have been concentrated in the new economy sectors



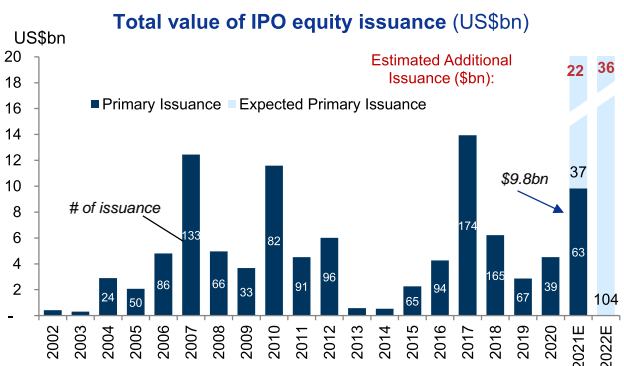
Source: Venture Intelligence, Goldman Sachs Global Investment Research

Exhibit 7: Exits via public markets have increased this year, after declining for past 3 years



Source: Venture Intelligence, Goldman Sachs Global Investment Research

Exhibit 8: IPO pipeline has been robust this year and has already surpassed the past 3 years



Source: Bloomberg, Goldman Sachs Global Investment Research

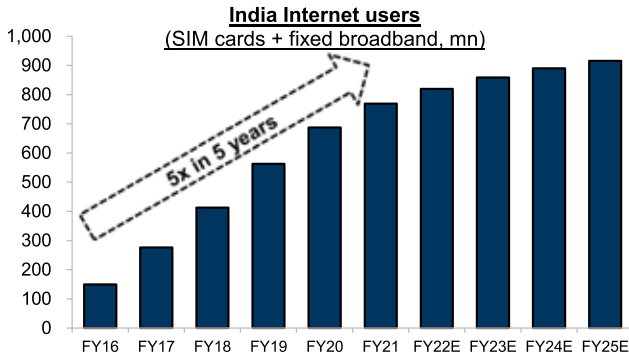
Rapid innovation, digital ecosystem, regulations have enabled startups

We briefly discuss various factors that have enabled and helped startups to grow and rapidly gain scale in India in recent years. These include the rapid rise of the Internet ecosystem, availability of private funding, financial innovations and favorable regulatory environment, among others.

- **Availability of private capital:** As we noted earlier, private equity flows have been a major source of capital for the startups in recent years, which have helped address the shortage of capital in India.
- **Rise of internet ecosystem:** India is one of the world's largest internet markets, with almost 800mn internet users and about half a billion smartphone users as of FY21, second only to China. While the number of internet users have seen a five fold increase in the past 5 years, internet penetration (as a proportion of population) has room to increase further compared to Asian and global peers. Moreover, mobile data usage in India has seen a 20x increase over the past five years and is among the highest in the world today. This has been spurred by a sharp drop in the cost of mobile data in India, which is currently one of the cheapest in the world. This has helped companies to acquire customers quickly and at a cheaper cost.
- **Accelerated online adoption:** Most of the Internet verticals in India (except travel) have seen a sharp pick up in growth over the past year with a **faster shift to online**, amid Covid containment measures and widespread shift towards staying-at-home. As an example, the average growth in topline for Internet companies at our **India Internet Conference** this year, across multiple sectors including food delivery, education, e-commerce (incl. grocery) and fintech, was about 100% higher vs. pre-COVID levels. This has helped improve unit economics for the startup companies. While infrastructure and logistics bottlenecks remain, our internet analysts expect India's e-commerce adoption to double over the next four years.
- **Financial innovations in digital/payment infrastructure:** Various financial innovations have helped significantly reduce the cost of setting up operations, acquiring customers and increased digital transactions and payments in India. For example, the **India stack**, which is a set of open APIs, provides a unique digital Infrastructure in India. It includes a unique biometric identification, **Aadhaar** (which has 1.3bn registered users currently) at the base/presenceless layer; eKYC and digital locker APIs at paperless layer and **Unified Payments Interface** (UPI) for cashless digital payments. UPI has quickly emerged as the fastest growing and most popular method of digital transactions, and now accounts for more than half of the overall digital payment methods in India. This has helped Fintech firms and ecommerce companies to sign up a large number of merchants on their platforms and gain market share from incumbent players.

- Favorable regulatory changes:** In March this year, the market regulator SEBI relaxed various norms related to listing requirements on the IGP (Innovators Growth Platform) which makes **listing of startups easier**. These measures include reducing the holding period for pre-issue capital (from 2 years to 1 year), allowing discretionary allotment to eligible investors, and easing conditions for companies seeking to migrate to the main board, among others (see Exhibit 19 for details).

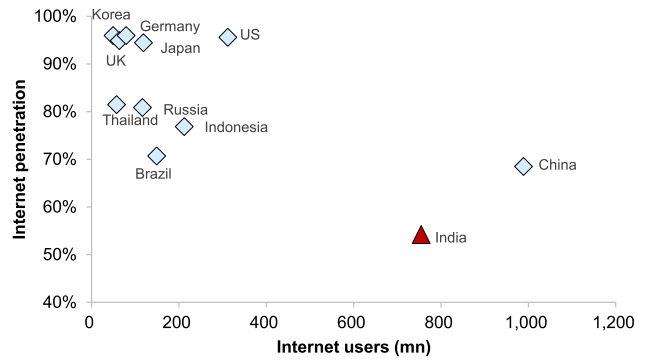
Exhibit 9: India has almost 800mn internet users, with internet usage seeing a 5x increase in the past five years...



Source: Garner, IDC, Euromonitor, Goldman Sachs Global Investment Research

Exhibit 10: ... but internet penetration has room to increase, compared to Asian and global peers

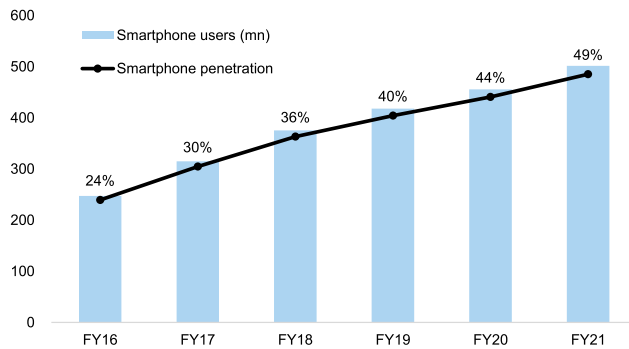
Internet users (in mn) and internet users as % of population (May 2021 or latest)



Source: Internet World Stats

Exhibit 11: India has about half a billion smartphone users, second only to China

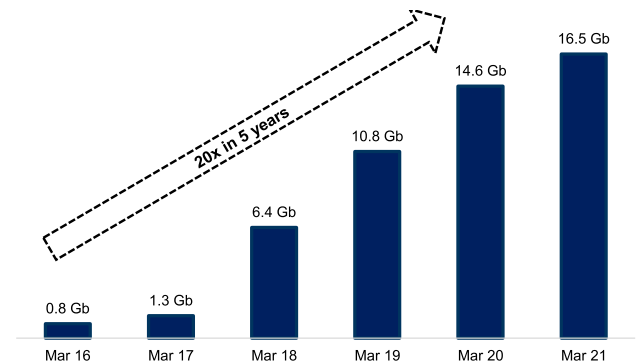
Penetration calculated on total mobile subscriber base. FY21 represents March 2021, and so on.



Source: IDC, Goldman Sachs Global Investment Research

Exhibit 12: Mobile data usage in India has seen a 20x increase over the past 5 years

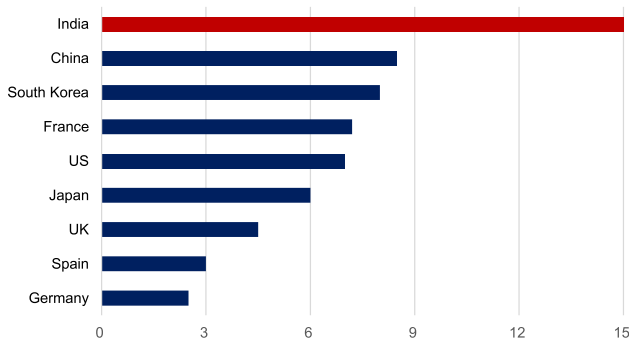
Data usage per month per data user



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 13: Mobile data usage in India is among the highest in the world ...

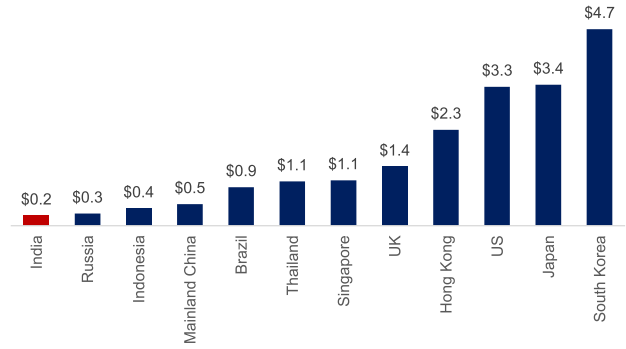
Data usage (Gb per month per user) on mobile (excluding WiFi)



Source: Nokia MBIT, Goldman Sachs Global Investment Research

Exhibit 14: ... with the cost of data in India one of the cheapest in the world

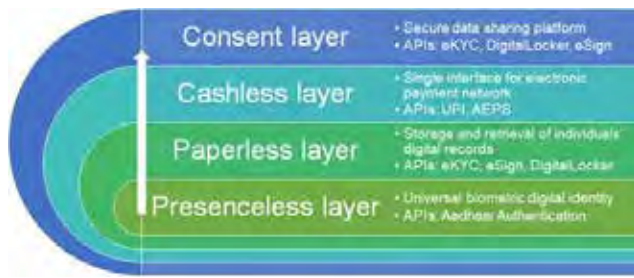
Compiled by cable.co.uk in March 2021. India tariff compiled by Goldman Sachs.



Source: cable.co.uk, Goldman Sachs Global Investment Research

Exhibit 15: India stack provides a unique digital infrastructure

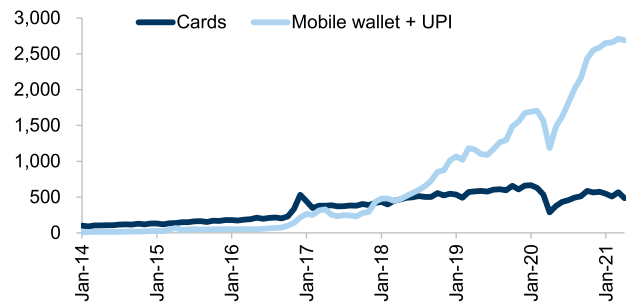
The India Stack



Source: Goldman Sachs Global Investment Research

Exhibit 16: Mobile payment /digital transactions have risen sharply and overtaken cards

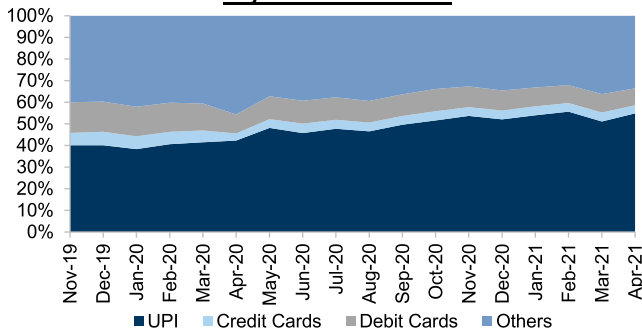
Monthly transactions (in mn) for mobile wallets vs UPI



Source: RBI

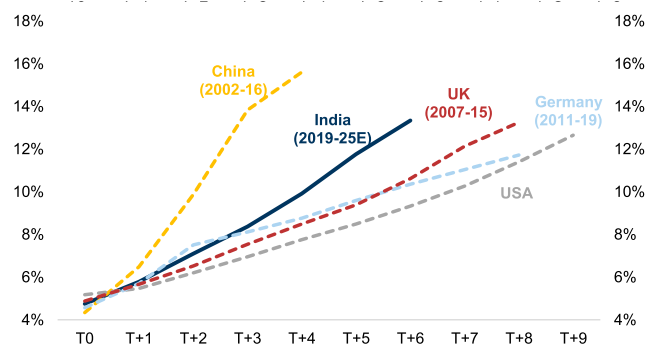
Exhibit 17: UPI now accounts for more than half of the total digital payments mix at 55% volume share

Payment market share



Source: RBI

Exhibit 18: We expect India's ecommerce penetration to rise faster than the US at same levels, but slower than China



Source: Goldman Sachs Global Investment Research

Exhibit 19: The market regulator has recently relaxed listing requirements for startups in India

Regulatory changes to listing rules made by SEBI for firms/startups on the Innovators Growth Platform (IGP)		
	Existing Provisions	SEBI Amendments (March 2021)
IPO eligibility requirement	25% of pre-issue capital of issuer company was required to be held by eligible investors for at least a period of 2 years	Period reduced from 2 years to 1 year
Pre-issue investors	For meeting pre-issue eligibility threshold of 25%, shareholding of accredited investors was only considered up to 10%	Accredited investors' shareholding consideration increased from 10% to 25%
Allotment prior to issue opening	No provision to permit issuer companies to allocate for anchor investors on a discretionary basis	Issuer companies permitted to allocate up to 60% of the issue size on discretionary basis with a lock-in of 30 days
Superior Voting Rights equity shares	Issuer companies that have issued Superior Voting Rights to its promoters/founders were not permitted to do an IPO of only ordinary shares	Issuer companies which have issued Superior Voting Rights (SR) to its promoters/founders are eligible for listing
Takeover requirement	Acquirer was required to make a public announcement of an open offer when acquiring more than 25% shareholding of the target company	Stipulation for trigger of open offer announcement relaxed from 25% to 49%
Delisting approval	For delisting its equity shares, issuer company was required to obtain approval of the board of directors and of shareholders. Votes cast by public shareholders in favour were required to be at least twice the number of votes cast against the proposal	Delisting requires acquirer/promoter shareholding, together with shares tendered and accepted to reach 75% of the issued shares of that class, and at least 50% public shares tendered and accepted
Delisting offer price	Offer price was determined through book building process	Delisting price to be based on floor price, and an additional delisting premium justified by the acquirer/promoter
Migration to the Main Board	If a company did not satisfy requirements of profitability, net worth, net assets, etc., it was required to have 75% of its capital to be held by qualified institutional buyers (QIBs) to be eligible to migrate to the Main Board	Requirement of capital held by QIBs relaxed from 75% to 50%

Source: SEBI, Goldman Sachs Global Investment Research

Large digital issuance could significantly transform Indian equity landscape

We think large startups coming to the public markets with an increasingly digital economy emphasis could potentially transform Indian capital markets and equity indices over the next few years.

Our objective framework for estimating new listings

To gauge the potential impact, we start by trying to identify the universe of potential candidates that are more likely to list in the public markets over the next few years. We include the following private companies that meet at least one of the below criteria or belong to at least one of the below groups:

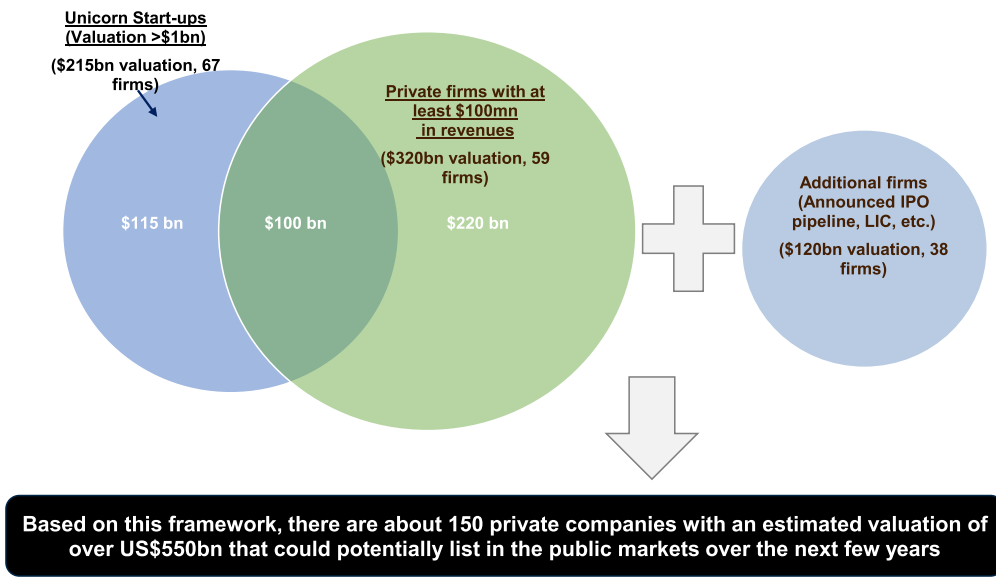
- **Unicorns:** Private companies that have achieved valuation above US\$1bn in their last funding round, commonly referred to as 'unicorns' – As we noted earlier, many of these belong to the new economy/tech sector and have indicated that they are 'IPO ready'. The list includes 67 firms with combined valuations worth US\$215bn as per Venture Intelligence data.
- **Firms with sufficient scale:** Private firms that generate at least US\$100mn in annual revenues based on last reported financials – We think such firms have achieved sufficient scale and are more likely to consider potential listing over the next couple of years. The list includes 59 firms with combined valuations worth US\$320bn as per Venture Intelligence data, with about 30% of them overlapping with the unicorn list.
- **IPO announcements, Govt. divestments:** In addition to the above two categories, we include companies that have publicly announced their plans to list or filed draft prospectus with the regulator (SEBI). We also include large companies that are likely to hit markets as a part of the government's ambitious divestment/privatization plans (e.g. LIC). This list includes 38 firms with an estimated valuation worth US\$120bn, based on various press reports and company announcements.

Based on this framework, there are about 150 private companies with an estimated valuation of over US\$550bn that could potentially list in the public markets over the next few years. We note that **financials companies and e-commerce firms** account for the largest number of potential new listings with the new-economy tech-enabled sectors accounting for nearly half of the estimated value.

In our base case estimate, **we assume about half of the unicorns and firms with at least US\$100mn revenues list over the next 2-3 years**, along with companies that have already announced IPOs. We assume a listing premium of 15% over the offer price, in line with long term average since 2004 (and slightly lower than the premium for past two years). Based on these assumptions, **nearly US\$400bn of market cap could be added from new listings over the next 2-3 years** — this could be conservative given the rapid pace of IPO announcements ytd and the substantial valuation premiums commanded by recent tech IPOs. We provide a sensitivity table for various proportions

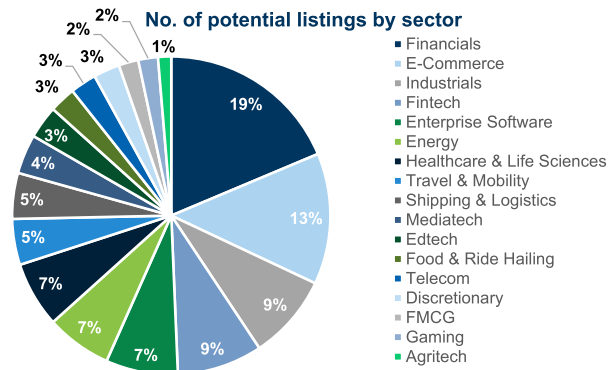
of new listings from the estimated universe of possible candidates highlighted in the framework above and various levels of market premium.

Exhibit 20: Based on our framework, there are about 150 private companies with an estimated valuation of over US\$550bn that could potentially list in the public markets over the next few years



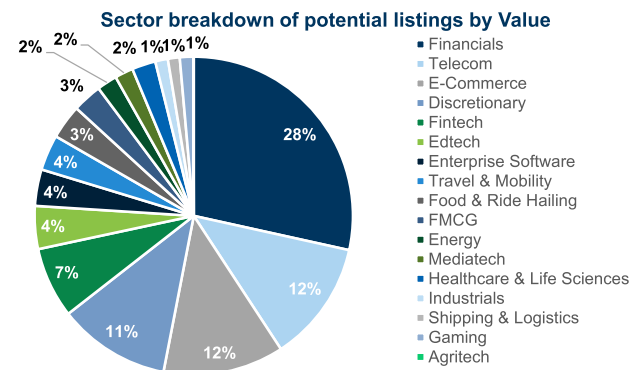
Source: FactSet, Goldman Sachs Global Investment Research, Venture Intelligence, Bloomberg

Exhibit 21: Financials and E-commerce sectors could account for the largest number of potential listings over the next 2-3 years...



Source: Goldman Sachs Global Investment Research

Exhibit 22: ...with Financials and New-economy tech-enabled sectors accounting for most of the estimated value



Source: Goldman Sachs Global Investment Research

Exhibit 23: Historically, IPOs in India have listed at a premium of 10-15% on average over the offer price



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 24: Based on our assumptions, nearly US\$400bn of market cap could be added from IPOs over the next 2-3 years

Based on our assumptions, nearly US\$400bn of market cap could be added from IPOs over the next 2-3 years					
% IPO listing vs. premium sensitivity		Listing premium			
		-15%	0%	+15%	+30%
% Value of IPOs listing over next 2-3 years	25%	195	225	260	295
	50%	285	335	385	435
	75%	380	445	510	580
	100%	470	555	635	720

Note: In our base case estimate, we assume about half of the unicorns and firms with at least US\$100mn revenues list over the next 2-3 years, along with companies that have already announced IPOs, at an average 15% listing premium

Source: FactSet, Bloomberg, Venture Intelligence, Goldman Sachs Global Investment Research

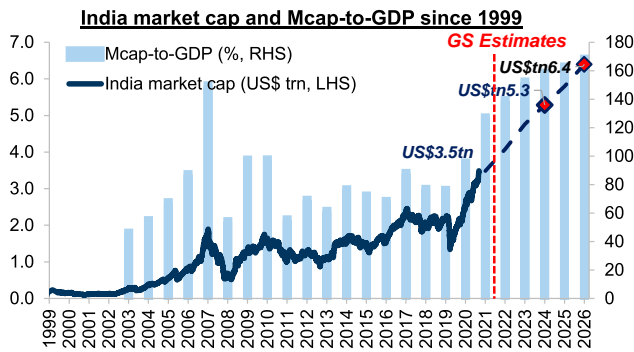
Capital market shifts: India will be a larger share of the global pie

With a significant amount of issuance and market cap getting added to the listed equity markets over the next few years, we envision a rapid rise in the size of the Indian capital market, with India accounting for a larger share in global/regional indices over the next 3-5 years.

In order to estimate the increase in India's market cap and its share in global markets, we refresh our long-term equity market cap forecasts until 2030, based on the framework in our previous Global Strategy Papers. We incorporate our updated long-term global GDP growth forecasts and our expectations for equity market deepening, including size of issuance to arrive at global equity markets' size and composition changes. We note the key changes with respect to India below:

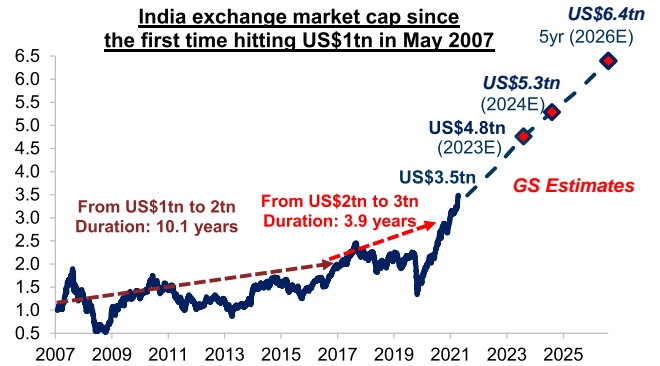
- **Significant expansion in the size of the Indian equity market.** India is currently the 7th largest equity market by capitalization among major markets and regions (including counting the Euro area and Middle East as regions) with about US\$3.5tn market cap. Based on our refreshed estimates, we expect **India's equity market cap could increase significantly over the next 2-3 years and cross US\$5tn by 2024.** Relative to other markets, the estimates suggest India will likely surpass the UK and the Middle East to become the **5th largest market in the next two years.**
- This will also likely be the fastest addition of a trillion-US dollar market cap for India. India's market cap accrued from US\$1tn to US\$2tn in about 10 years (from 2007 to 2017) and the next trillion from US\$2tn to US\$3tn in about 4 years (2017 to 2021). As per our estimates, we forecast the addition of the next trillion US-dollar market cap over the next two years.
- **India's share of global market cap and index weighting will also rise.** We expect India's share in global market cap to rise from the current 2.8% to 3.4% in two years and 3.7% over the next 5 years. This is meaningfully higher than our forecast of 10bp increase in global GDP share in 2 years and 40bp increase in 5 years, reflecting higher issuance and capital market deepening over the next 2-3 years.
- India's share in global indices may rise from 1.4% in MSCI AC World index (ACWI) currently to 2% by 2023 and 2.5% in 5 years. Its weight in the MSCI EM index may rise from about 12% currently to 14% by 2023 and over 15% in 5 years. These changes incorporate the increased market capitalization estimates as well as potentially higher float factor, given relatively lower promoter ownership for digital unicorns than traditional/old-economy Indian corporates.

Exhibit 25: We expect India's market cap to rapidly increase over the next 2-3 years and cross US\$5tn by 2024...



Source: Bloomberg, Goldman Sachs Global Investment Research

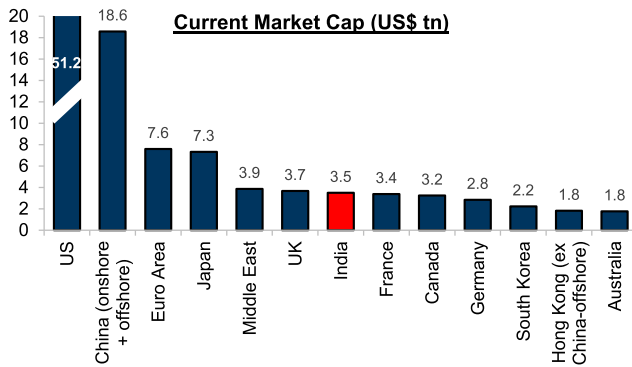
Exhibit 26: ... which will likely be the fastest addition of a trillion-dollar market cap over the next two years



Source: Bloomberg, Goldman Sachs Global Investment Research

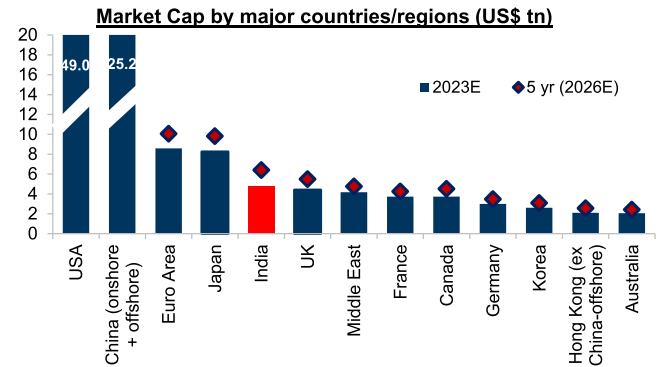
Exhibit 27: India is currently the 7th largest equity market by capitalization among major markets and regions...

As of Sep 13, 2021



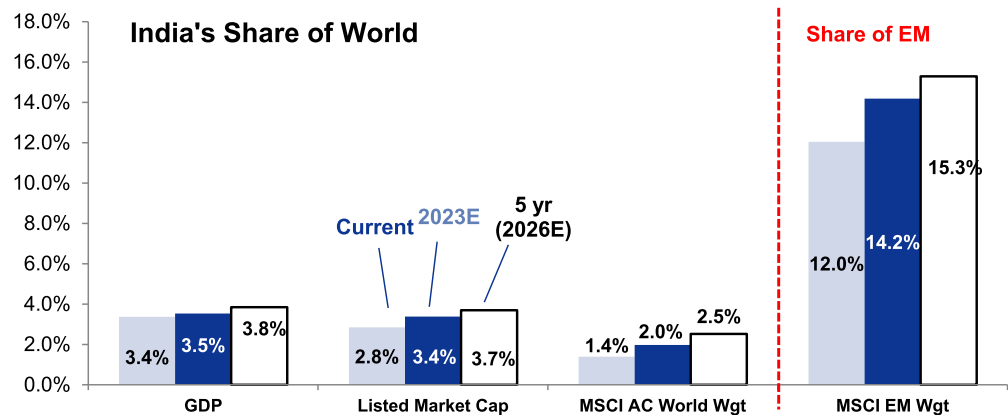
Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 28: ...and could surpass UK and the Middle East to become the 5th largest market in the next two years



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 29: India's share of World and regional market capitalization and index weight is likely to increase meaningfully over the next few years



Source: MSCI, Goldman Sachs Global Investment Research

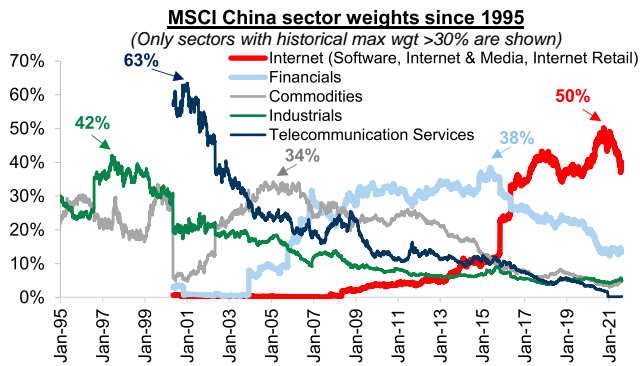
The Ascent of the digital economy: Lessons from China

In addition to significant expansion in market capitalization and rise in aggregate index weights, we **believe the increasingly digital economy focus of the upcoming potential listings could drive a larger representation of new-economy facing sectors in the benchmark indices in India**. This will likely have implications for fundamentals and the return profile of the market. Before we delve into those, we look at the Chinese equity market, which has been a poster child for the digital transformation. We summarize the key lessons from China below, which in turn could help investors gauge the likely path for Indian markets.

- **China's internet sector weight has risen sharply and is the highest in Asia.** From essentially zero in the early 2000s, the weight of the internet sector (which includes software, media and internet retailing) in China rose to about 50% by 1Q this year. With the sell-off this year driven by regulatory risks, internet sector weight has come down to 40% but remains the highest in Asia. We are increasingly seeing rising share of 'new economy' sectors in indices, elsewhere in the region too, notably in Korea and nascent signs in parts of ASEAN (e.g. Sea Ltd inclusion in MSCI Singapore).
- **More broadly, the representation of 'new economy' sectors has risen and now comprises the majority of index cap and daily turnover.** Our China strategists have filtered over 5,000 China companies into 'new' and 'old' China categories. New China comprises about 60% of MSCI China index weight (up from 20% a decade ago) and about half of daily exchange turnover.
- **The China equity index is the 'youngest' in the region.** The average number of years of listing for stocks, which is a good proxy for change and innovation, in the MSCI China index is just 9, compared to 20-25 for most other Asia Pacific ex-Japan equity markets. The average listing age for companies in MSCI India is 21 years.
- **New China has grown faster and has enabled China to deliver the best EPS growth over the past decade in the region.** Notwithstanding the recent regulatory tightening in China, which could impact future profitability, New China has consistently delivered faster revenue and earnings growth than old China over the past decade. This has enabled China to post the best 10yr EPS CAGR of all the Asia Pacific ex Japan regional markets (11% for China vs. 6% for MXAPJ).
- **Faster growth has enabled New China to outperform significantly over the past decade.** More rapid and consistent earnings growth, coupled with expectations of further growth based on large addressable markets, has fueled remarkable share price performance in New China stocks. Since 2005, the MSCI New China constituents have risen over 17x compared to 3x for the old China segment of the market.

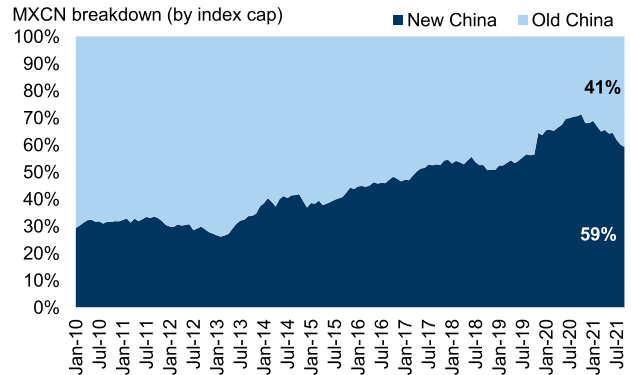
The above insights from China show that the digital economy shift has helped China deliver superior profitability and outstanding 'new China' price returns.

Exhibit 30: China's internet sector weight has risen sharply over the past decade



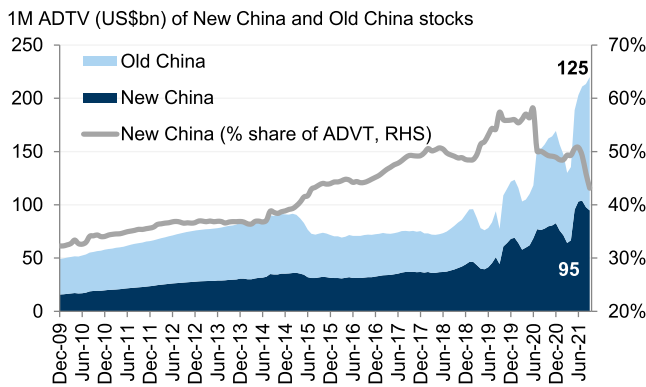
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 31: The representation of new economy sectors in China's equity index has risen steadily over time and currently comprises about 60% of MSCI China index weight



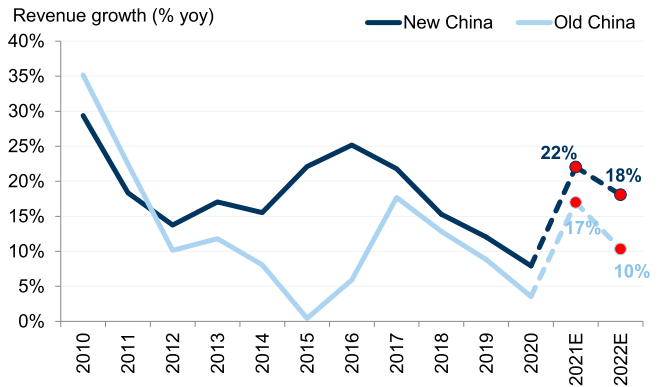
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 32: 'New economy' sectors in China comprise about half of the daily exchange turnover



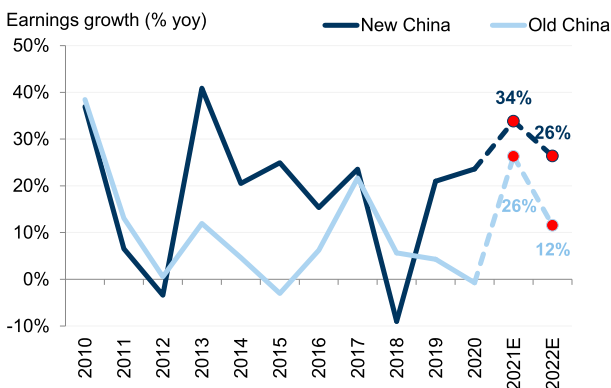
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 33: Notwithstanding the recent regulatory tightening in China, New China has consistently delivered faster revenue growth...



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 34: ... and faster earnings growth than Old China, over the past decade



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 35: Over the past decade, the new economy sectors in China have delivered outsized returns compared to Old China



Note: As of Sep 10, 2021

Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Index transformation: Getting younger, growing faster, digital but more expensive

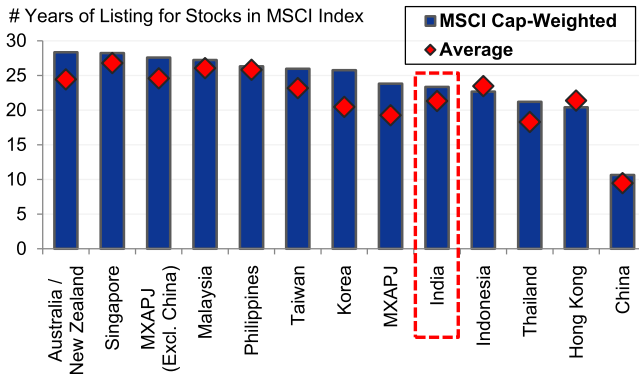
The Indian equity indices have seen relatively little change over the past decade. The majority of stocks in the Indian front line indices like NIFTY and MSCI India have more than 20 years of listing history, making India among the 'oldest' indices in the region. The average number of years of listing for companies in MSCI India is 21 years (vs. 9 years for China which is the youngest as we noted earlier). Many of the top stocks in the Index today remain the same as they were 10 or 20 years ago.

At the sector level, composition changes have also been slow. The index still remains dominated by financials and old-economy/traditional sectors. The lack of fast growing new economy/digital stocks in the index has meant that India's earnings have lagged the region while the internet-heavy China index, on the other hand, has delivered the best earnings over the past decade.

Looking forward, we think **Indian equity indices could see a larger representation of the new-economy sectors over the next 2-3 years as the large digital IPOs get included in the index.** Based on our pro-forma calculations, assuming 50% of the market cap increase from listings gets added as float capitalization, **we see the new-economy sector weight could rise from the current 5% to 12% and further to 16% in case of full inclusion.** Sectorally, consumer discretionary (which includes E-commerce and internet retail segments) and Comm services (internet, media) could see the largest increase in weights at the expense of the commodity and old-tech (software services) sector.

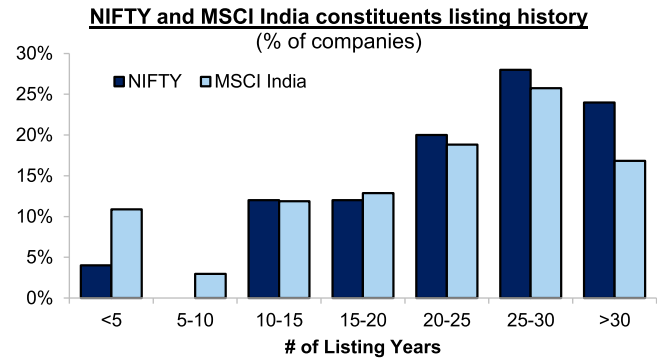
Furthermore, the private unicorns and the potential digital IPOs have been delivering significantly higher revenue growth than the traditional public equity indices, suggesting the compositional shifts could make the index grow faster in the future. **Addition of new listings could increase the aggregate revenues of MSCI India index by 20%,** on a pro-forma basis. However, the valuations for the index could rise given near-term negative earnings of few unicorns and expensive valuations of the digital tech companies.

Exhibit 36: The China equity index is the 'youngest' in the region in terms of average years of listing, a sign of greater change and innovation; The average listing age for MSCI India companies is 21 years



Source: FactSet, MSCI, Goldman Sachs Global Investment

Exhibit 37: Majority of stocks in the Indian front line benchmark indices have more than 20 years of listing history



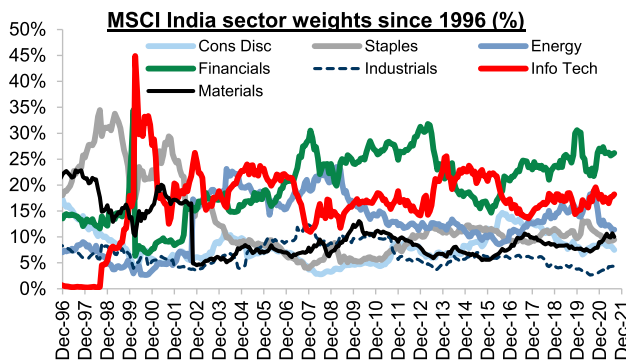
Source: NSE, FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 38: The top stocks in the Indian equity index haven't changed a lot over the past two decades

Top 10 stocks in MSCI India						
20 yr ago (Sep 2001)			10 yr ago (Sep 2011)		Current (Sep 2021)	
Rank	Name	Sector	Name	Sector	Name	Sector
1	Hindustan Unilever	Cons Stap	Infosys	IT	Reliance Industries	Energy
2	Reliance Industries	Energy	Reliance Industries	Energy	Infosys	IT
3	Infosys	IT	HDFC Bank	Financials	Housing Development Fin.	Financials
4	ITC	Cons Stap	ICICI Bank	Financials	ICICI Bank	Financials
5	State Bank of India	Financials	Housing Development Fin.	Financials	Tata Consultancy Services	IT
6	Mahanagar Telephone Nigam	Comm Serv	Tata Consultancy Services	IT	Hindustan Unilever	Cons Stap
7	Housing Development Fin.	Financials	ITC	Cons Stap	Bajaj Fin.	Financials
8	Wipro	IT	Hindustan Unilever	Cons Stap	Axis Bank	Financials
9	Cipla	Health Care	Larsen & Toubro	Industrials	Bharti Airtel	Comm Serv
10	Dr. Reddy's Laboratories	Health Care	Mahindra & Mahindra	Cons Disc	HCL Technologies	IT

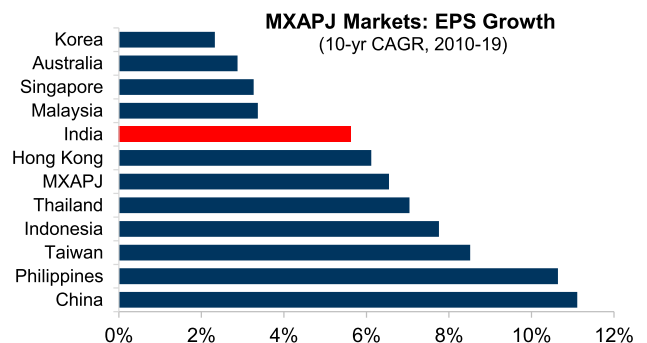
Source: FactSet, MSCI

Exhibit 39: MSCI India sector composition has varied over time but still remains dominated by financials and old-economy sectors



Source: FactSet, MSCI, Goldman Sachs Global Investment

Exhibit 40: India's earnings growth has lagged the region over the past decade; China has delivered the best EPS growth in the region, enabled by fast growing New China sectors



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

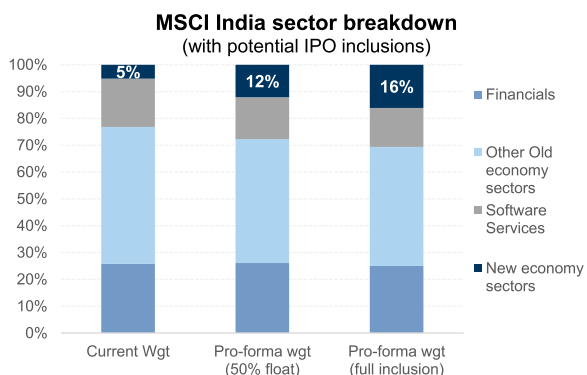
Exhibit 41: Financials and new-economy/internet sectors could gain index weight at the expense of commodity and old-tech (software) sector

Proforma sector breakdown with potential IPO inclusion at 50% float-cap (base case) and full-inclusion scenarios

MSCI India Index					
Sectors	Current Weight	At effective 50% float-cap		At full inclusion*	
		Pro Forma Weight	Change (in pp)	Pro Forma Weight	Change (in pp)
Financials	26%	27%	+1.6 pp	27%	+1.4 pp
Info Tech	18%	16%	-2.3 pp	14%	-3.4 pp
Consumer Disc (Incl. Internet retail)	8%	11%	+3.8 pp	14%	+6.0 pp
Energy	12%	10%	-1.6 pp	9%	-2.4 pp
Consumer Staples	9%	8%	-1.0 pp	8%	-1.4 pp
Materials	10%	9%	-1.6 pp	8%	-2.4 pp
Communication Svcs.	4%	5%	+1.9 pp	7%	+3.1 pp
Industrials	5%	5%	+0.3 pp	5%	+0.5 pp
Health Care	5%	5%	-0.3 pp	5%	-0.4 pp
Utilities	4%	3%	-0.6 pp	3%	-1.0 pp
Real Estate	1%	0%	-0.1 pp	0%	-0.1 pp
Total	100%	100%		100%	

Note: Full inclusion assumes 100% market cap of private company IPOs are added while we retain inclusion factor for PSUs and state-owned enterprises at 25%

Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 42: India equity index could see a greater index representation of the new-economy sectors from IPO inclusions


Note: Current new economy weight includes Info Edge and proportional exposure to consumer-tech segments via Reliance Industries

Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 43: Private unicorns offer significantly higher revenue growth than traditional public equities but are trading at expensive valuations
Fundamentals (private unicorns/IPOs vs. public equities)

	Private firms (Potential IPO listings)	NIFTY	MSCI India
Revenue CAGR (3 yr, 2019-22E)	66%*	7%	8%
P/Sales (X, 3yr avg)	21x	3x	3x
EV/EBITDA (X, 3yr avg)	26x	16x	17x

Note: Revenue CAGR for private firms is represented by the cross-sectional median of last reported values

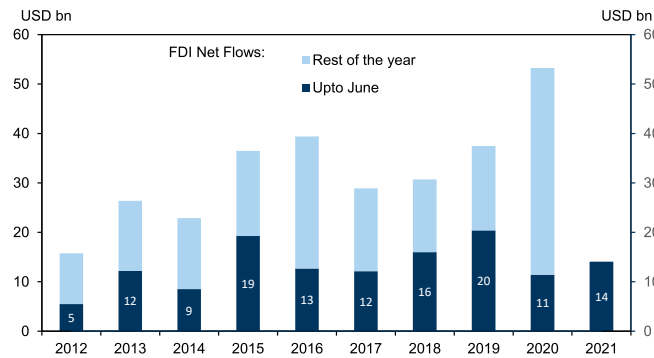
Source: Venture Intelligence, FactSet, MSCI, Goldman Sachs Global Investment Research

Liquidity and Macro implications: Boost to capital flows; Faster financialization of savings

We think the listing of these large digital-focused companies and their greater representation in indices over time, together with the strong thematic appeal and growth potential of new economy sectors, will likely lead to substantial demand from both foreign and domestic investors. This, in turn, could support higher equity valuations, positive capital account/INR dynamics and help accelerate financialization of household savings, among other benefits.

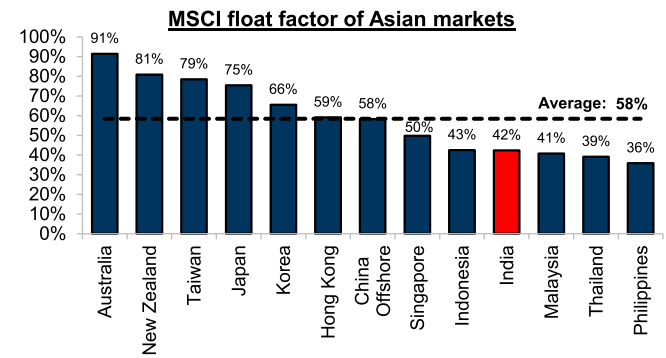
- **Stronger capital flows:** India has been seeing strong and rising FDI inflows over the past three years with record net FDI inflows of over US\$50bn last year. We think capital flows may likely remain strong over the next few years, given the robust IPO pipeline and expectations of strong investor demand for the new economy IPOs, together with the government's ongoing efforts to attract investments in India's manufacturing sector (through measures like Production-Linked Incentives, National Monetization Pipeline, etc). Strong capital flows could keep equity valuations higher in the near term and could lend support to INR as well.
- **Higher benchmarked passive inflows:** The potential addition of IPOs in Indian indices will drive inflows from passive funds/ETFs which are benchmarked to those indices. Additionally, we think the inclusion of tech unicorns which typically have relatively lower promoter holdings, compared to traditional old-economy Indian corporates can help increase the effective float of the indices. As an example, India's float in MSCI equity indices is among the lowest at 42%, compared to an average of 58% for the Asian region and about 70-90% for North Asian markets (Korea, Taiwan) and some of the DM Asian peers (Japan, AU/NZ).
- **Further rapid financialization of household savings:** As we have been noting in our reports, the retail participation has increased over the past year and a half, across many markets in the region including in India. Record SIP flows in August, large number of SIP and retail account (demat) openings and rising individual ownership of listed equities, all suggest retail investors remain quite active in the market. We think the fast growing and popular new economy facing companies, which have been scarce in the public markets until now, will see strong retail demand, which in turn will further support the ongoing financialization of household savings. We note that Indian household direct allocation to equities remains low (4% of financial assets) compared to US (35%) and other major markets in Asia (between 10%-22%).

Exhibit 44: India has been seeing strong FDI inflows over the past few years



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 45: India's float in MSCI equity indices is among the lowest at 42%, compared to an average of 58% for the Asian region



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

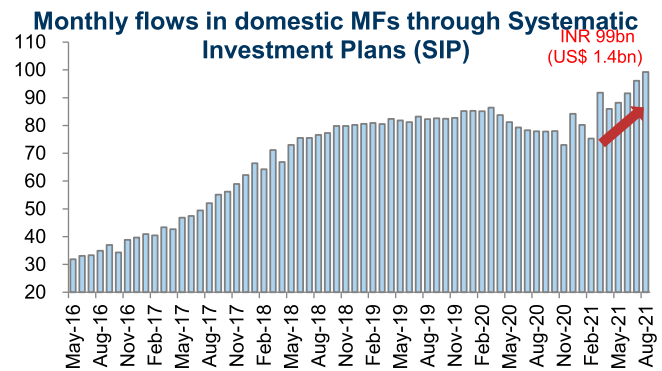
Exhibit 46: We estimate passive buying of about US\$12bn in MSCI India as our base case over the next 2-3 years, assuming 50% float ratio for the newly added listings

Potential passive inflows into Indian equities driven by the inclusion of new IPO listings in MSCI indices under various float factor assumptions (US\$bn)*		
Benchmark	FIF = 0.5	FIF = 1.0
Asia	6.6	13.1
EM	5.6	11.1
ACWI	0.4	0.8
Total	12.5	25.0

*Note: Calculated based on the estimated market value of upcoming IPOs in India over the next 2-3 years (~US\$390bn) and the AUM of the passive mandates benchmarked against various MSCI regional indices.

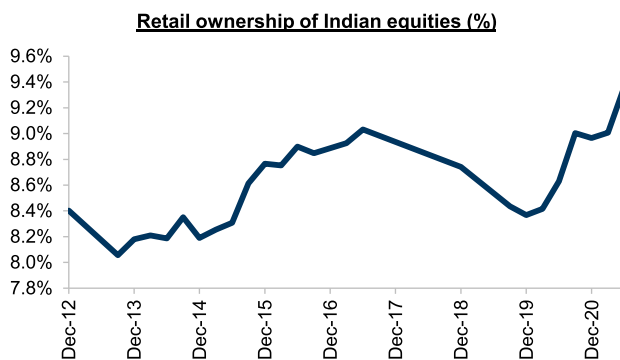
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 47: Retail inflows via Systematic Investment Plans (SIP) have remained strong and rose to a record high in August



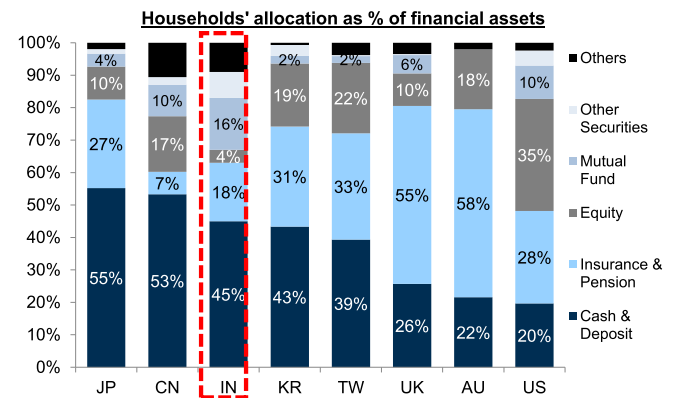
Source: AMFI

Exhibit 48: The retail ownership of Indian equities has sharply increased since last year to decade highs



Source: Capitaline, Goldman Sachs Global Investment Research

Exhibit 49: Indian household direct exposure in equities remains low compared to US and other major markets in Asia



Source: NIFD, CEIC, Wind, China Wealth, China Trust Association, Japan Cabinet Office, Halifax, Goldman Sachs Global Investment Research

Opportunities and Implications for investors and financial intermediaries

The changing Indian equity landscape that we have outlined have important implications for both investors and financial intermediaries.

- **Constructive outlook on Indian equities.** Indian equities have done well this year, being the best performing market regionally. The strong market performance and high valuations have prompted overheating concerns among some investors, but we stay overweight on expectations of a strong cyclical recovery and supportive flows. Additionally, the secular growth potential of the new economy sectors lends support to our medium-term constructive view.
- **Strong thematic appeal.** While the private equity and venture capital investors have been quite active in the new economy startups in recent years, there has been a scarcity of such companies in the public markets. The IPO listings allow direct exposure for investors to participate in the hyper growing new economy sectors in India (like payments/fintech, e-commerce, food-tech, online grocery, education and entertainment).
- **Potentially attractive return opportunities.** Over the past decade, investors have benefited from China new economy stocks, as evidenced by their significant outperformance (17x returns compared to 3x for the Old China segment since 2005). Given maturing markets in China and the recent regulatory tightening, India could become the next alternative. Given their strong growth potential, we believe the new economy sectors in India can offer attractive return opportunities for investors, as long as investors do not overpay for growth.
- **Substantial revenue opportunities for financial intermediaries.** Financial intermediaries may have substantial revenue opportunities from growth in primary, secondary and related issuance activities.

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Reg AC

We, Sunil Koul and Timothy Moe, CFA, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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